HR-36. WELFARE REFORM

36.1 Background

The 1996 welfare reform law marked an historic shift in social policy by devolving to the states and territories the authority to develop and implement innovative approaches to welfare reform that would better serve poor families. The nation's Governors led the way for this reform by demonstrating successful implementation of waivers to the former Aid to Families with Dependent Children (AFDC) program, adopting innovative policies related to work requirements and time limits. Governors welcomed the opportunity to make broad, nationwide changes to a welfare system that had operated for more than 60 years. In partnership with Congress and the Administration, Governors reached an agreement to end the federal funding of an individual entitlement to cash assistance, and to instead accept federal funds in the form of the Temporary Assistance for Needy Families (TANF) block grant with work participation requirements and a 60-month federal time limit on cash assistance with state-specified exemptions. In exchange for the ability to administer the program at the state level, Congress and the Administration made a commitment to Governors for guaranteed levels of funding for TANF, and Governors agreed to maintain state expenditures through a maintenance-of-effort (MOE) provision. The TANF block grant has provided Governors the flexibility to implement innovative welfare reform programs based on work requirements and time limits, along with the ability to use TANF funds to provide needed work supports for low-income working families.

36.2 Next Stage of Welfare Reform

Governors are proud of their success in welfare reform. States and territories have enacted policies and programs to help individuals move into work and have provided them with work-related supports, such as child care and transportation assistance. As a result, unprecedented numbers of single women with children have moved into the workforce. The focus of welfare systems has been transformed from check-cutting to comprehensive employment and support with an emphasis on job placement and retention. TANF provides the flexibility to allow caseworkers to better assess recipients' needs and tailor their assistance package on an individual basis. As a result, fewer individuals are dependent on cash payments and a greater number are benefiting from state programs to help them enter the workforce, stay employed, advance in their jobs, and improve their overall family well-being.

Governors recognize, however, that the job of helping families attain long-term self-sufficiency is far from over and that many challenges remain. States continue to face the challenges of the next stage of welfare reform as Congress and the Administration consider reauthorization of the TANF block grant. For example, Governors recognize that achieving self-sufficiency and sustained independence from welfare requires more than just an entry-level job. States are beginning to address the challenges of promoting job retention, job advancement, and increased earnings. Further, many long-term welfare recipients who remain on the welfare rolls struggle with multiple barriers to employment, such as low literacy levels, mental illness, substance abuse, learning disabilities, limited English proficiency, and domestic violence. States face the challenge of working to address these barriers in light of time limits and work requirements. In addition, research indicates that children are better off if they are raised with the active involvement of both parents. Governors recognize that initiatives in areas such as fatherhood programs and teen pregnancy prevention programs can help prevent welfare dependency and result in better outcomes for children.

Balancing priorities and facing increasing demands for assistance in times of economic downturn have become recent challenges to state welfare programs. Since the enactment of TANF, states have used the funding and flexibility provided in the block grant along with significant state investments to develop and implement new innovative work and family support initiatives far beyond the traditional cash welfare system. In fact, a recent study by the General Accounting Office demonstrated that over the past five years many states have substantially increased their own financial investment to address the overall needs of low-income families. With recent rises in unemployment and heightened expectations for the reformed welfare system, however, states may now be faced with significant new fiscal challenges in their TANF programs to maintain a consistent level of assistance to families in need.

36.3 Recommendations for Reauthorization

The ongoing progress of welfare reform is of the utmost concern to the nation's Governors. The nation operated under the AFDC program for more than 60 years. Over time, this program grew less effective as families became more reliant on public assistance. In just a few short years of operating TANF programs, states have dramatically changed their system of public assistance—yet it is still very much a program in development. The success of welfare reform has demonstrated the positive changes that are possible through devolution of authority to the state and local level, and Governors strongly believe this authority should not be rescinded. Any policy changes at the federal level that would alter the course states have followed in implementing their TANF programs could have a detrimental impact on the delivery of assistance. The nation's Governors urge Congress and the Administration to reject any reauthorization proposals that would hinder the continued progress of welfare reform.

36.3.1 Funding

36.3.1.1 **Overall funding levels should include an inflationary adjustment.** Governors believe the federal government must maintain the financial commitment to the TANF block grant and allow for inflationary increases in the program. Welfare is no longer simply about providing cash payments to poor families. While Governors are proud of the significant decline in the number of people receiving cash assistance, the untold story of welfare reform is the amount of federal and state funds that are now being dedicated to non-cash assistance, such as child care, transportation, training, and family support services for families transitioning from welfare to work. Failure to provide an inflationary increase, coupled with a continued reduction in the real dollar value of the TANF block grant, could cause states to shift their focus away from, or reduce their investment in, non-cash assistance services that directly relate to the success of welfare reform. The continued financial commitment from the federal government is imperative to states' ability to sustain the new construct of delivering services to broad populations of low-income families.

36.3.1.2 **Supplemental funds should continue**. The original TANF statute provided supplemental funding to qualifying states with high population growth or historically low welfare spending. Governors believe such supplemental funds to states should be included in the qualifying states' base grant amounts in reauthorization. If Congress determines that additional states and/or territories qualify for TANF supplemental funds, all such funds should be in addition to the current total TANF funding as adjusted for inflation. These funds should be in addition to those that have been historically paid to states through the TANF supplemental grants in fiscal 2001.

36.3.1.3 **Contingency fund should be strengthened.** Governors support strengthening the existing TANF contingency fund to make it a viable source of federal support in times of economic crisis. The uncertainty of the current economic situation speaks to the need to develop a workable TANF contingency fund. Specifically, Governors are interested in working with Congress and the Administration to develop more appropriate triggers for eligibility. In addition, the high match requirement imposed on states that access the contingency fund is not reasonable during an economic downturn, and Governors believe this requirement should be eliminated.

36.3.1.4 **Ability to maintain state "rainy day" funds should be enhanced.** The TANF statute explicitly allowed states to carry funds forward from year to year—in part to allow states to prepare for a "rainy day." Unfortunately, Congress has often viewed carryover funds as dollars no longer needed by the states, making them vulnerable to cuts. Rather than creating an incentive for states to spend federal funds in a rush—the "spend it or lose it" mentality—the federal government should create incentives for states to "save" funds so that states are better equipped in times of economic difficulty. Governors believe Congress and the Administration should consider new incentives for states to "save," such as allowing states to count state "rainy day" funds for welfare toward some portion of their TANF MOE requirement.

36.3.1.5 **Bonuses should be used to reward high performance.** States are currently eligible for financial bonuses through the TANF High Performance Bonus and the out-of-wedlock birth reduction bonus. Governors believe that bonuses, rather than penalties, are an effective mechanism for the federal government to use to encourage and reward innovative state approaches to welfare reform, and support the continuation of these bonuses.

36.3.2 **Flexibility.** Governors believe that states' ability to implement innovative approaches to assist low-income families must continue. The flexibility of the TANF block grant was the cornerstone of the 1996 reforms. The four broad purposes for TANF currently contained in the federal welfare law provide states with significant flexibility to develop and implement innovative welfare reform initiatives and to serve a broad population of families in need. States are directed to use TANF funds "in any manner that is reasonably calculated to accomplish the purpose(s)." Governors strongly believe that this flexibility must be maintained.

Further, Governors would oppose any effort to establish set-asides or further restrictions on the use of TANF funds. The 1996 welfare reform agreement was based on providing states the flexibility to design unique welfare reform initiatives, and proposals to require states to spend specified levels of TANF funds for a specific purpose would violate the basic tenets of this agreement. Any added emphasis the federal government places on a specific area of TANF spending, such as family formation, fatherhood, or poverty reduction, should come in the form of additional federal spending for state demonstration projects that can be rigorously evaluated.

In addition, Governors believe there are a number of areas in which additional flexibility could enhance state welfare reform initiatives.

36.3.2.1 **Focus on work should remain paramount.** Governors believe that the emphasis on work should continue to be paramount in welfare reform. While states may now know more about what helps prepare individuals for work and succeed in the workplace, the importance of work has not shifted and should continue in reauthorization. Governors support the notion that TANF clients should be engaged in work preparation or employment activity but believe that states should have greater flexibility to define what counts as a work activity. As states work with families on a more individualized basis, many states are finding that a combination of activities on a limited basis, such as work, job training, education, and substance abuse treatment, leads to the greatest success for some individuals. Governors believe the federal government should recognize the success of these tailored approaches to addressing an individual's needs by providing states greater discretion in defining appropriate work activities.

In addition, Governors believe two-parent families and single-parent families should be subject to the same work participation rates and encourage Congress to eliminate the separate two-parent work participation rate.

Consistent with the goals of welfare reform, states also should continue to receive credit for helping to move families off welfare.

36.3.2.2 **Time limits should continue.** Governors believe time limits on assistance have an important signaling effect to both recipients and to caseworkers about the urgency of addressing a family's needs and strongly support their continuation. As more states approach the time when long-term welfare recipients will begin to reach their limit on federally-funded cash assistance, Governors believe that, at state option and under certain limited circumstances, individuals who are working in unsubsidized employment consistent with the purposes of the law should have the ability to earn additional months of eligibility for federally-funded assistance.

36.3.2.3 **Ability to work with faith-based providers should continue.** States have a long history of working with faith-based organizations, and these organizations play an important role in improving the lives of families in need. The 1996 welfare reform law provided states with the option to contract with religious organizations within the TANF program. Governors believe this is a sound approach to collaboration with faith-based organizations and the option should be continued.

36.3.2.4 **Immigrant benefits should be restored.** Although some benefits to some legal immigrants have been restored in recent years, states should have the option to serve legal immigrants with TANF funds.

36.3.2.5 **Waiver policies should be continued.** Many states have continued to operate under waivers even after the enactment of TANF. States that were afforded enhanced flexibility through waivers should have the option to continue or renew some or all of these waivers under the TANF reauthorization legislation. Restricting this flexibility could greatly curtail the progress made in some states' welfare reform initiatives.

36.3.2.6 **Transferability should be enhanced.** The 1996 welfare reform law allowed states to transfer up to 30 percent of their TANF funds into the Child Care Development Block Grant (CCDBG) and the Social Services Block Grant (SSBG). In recent years, however, the transferability to SSBG has been restricted. Governors believe the authority to transfer funds to both CCDBG and SSBG should be maintained and the amount states can transfer to SSBG should be restored to 10 percent. In addition, Congress and the Administration should consider enhancing states' abilities to use TANF funds toward the Access to Jobs transportation program through transferability.

36.3.2.7 **Definition of qualified state expenditures should be expanded**. Differences between allowable uses of TANF funds and state expenditures that are a "countable" qualified state expenditure under the state MOE requirement are unnecessarily complex and burdensome. For example, even though both state and federal funds can generally be used in ways that are consistent with the purposes of the act, state funds can be used only when a needs test is met. In effect, this means that the federal legislation restricts state spending more than it does federal spending. Governors support removing the restrictions on state funds so that states have at least as much flexibility in their spending of MOE funds as they do with TANF funds.

36.3.2.8 **Restrictions on the use of carry-over funds should be eliminated.** The TANF statute explicitly provides states with the authority to carry funds forward from year to year to encourage long-range planning and to prepare for economic downturns. However, states are currently restricted to using funds from previous years on cash assistance only, essentially limiting states' ability to use carryover funds for work supports, such as child care and transportation. Since states are now spending a much higher proportion of their TANF funds on work supports and benefits other than cash assistance, Governors believe this restriction should be eliminated.

36.3.3 **Program Alignment.** Governors believe the federal government should explore ways to simplify and align rules for related programs in order to enhance states' abilities to create a cohesive system of support for low-income families. With the advent of welfare reform, states are working to create a more comprehensive system of assistance for families in need. The system of programs and benefits for individuals and families in need is becoming increasingly interconnected, and the federal government should consider eliminating barriers to this progress. Just as families' needs do not distinguish between different federal funding sources, neither should the federal government address families' needs with cumbersome and disjointed funding streams, eligibility rules, and reporting requirements. Governors believe states and territories should be provided greater flexibility to coordinate federally funded state-administered programs. A federal-state task force should be established to provide formal recommendations to Congress and the President on ways to increase coordination among federal programs serving families in need.

36.3.3.1 **Food stamps.** Food stamp benefits are often considered a key support for families transitioning from welfare to work. Unlike welfare reform, however, which has allowed states to develop innovative approaches for addressing families' needs, rules for administering the Food Stamp Program remain prescriptive and inflexible. Governors believe reforming the Food Stamp Program is a critical component of the next stage of welfare reform. Specific recommendations for food stamp reform can be found in the NGA food stamp policy (HR-22).

36.3.3.2 **Child care.** It is imperative that the federal government recognize child care as a key component of a successful TANF program. For many families, a successful transition from welfare to work is based on the reliability of child care assistance. Despite significant increases in both state and federal investments in child care, many states continue to face an unmet need for child care subsidies. Governors believe that states must continue to have the ability to use TANF funds both directly on child care and through the transferability to CCDBG. Governors also believe that funding for child care should continue to be a priority for the federal government.

36.3.3.3 **Child welfare.** Governors recognize that in many states, TANF funds are used for a variety of child welfare services, such as kinship care and family preservation initiatives, and this flexibility should continue. Governors also believe that additional flexibility within the child welfare system, including expanded waiver authority, could greatly enhance states' abilities to serve families in need. Specific recommendations for additional flexibility in child welfare programs can be found in the NGA child welfare policy (HR-26).

36.3.3.4 **Child support.** As a result of reforms enacted as part of the 1996 welfare reform law, states have a number of new tools to collect and distribute child support payments, which have greatly strengthened the overall child support enforcement program. Recognizing that child support payments are often a key component of a family's economic security, states are continuing to work to improve the collection and distribution of child support for low-income families. Governors are supportive of the federal government providing states with the option and the incentive to passthrough a greater share of child support collections to families—bearing in mind that in many states the financial stability of the child support enforcement system depends, in part, on retained collections. Specific recommendations for creating options for passthrough can be found in the NGA child support policy (HR-14).

36.3.3.5 **Housing.** Even though affordable, convenient housing is critical for a family to have a successful transition from welfare to work, there is too often a disconnect between agencies administering housing and welfare programs. Governors are interested in working with Congress and the Administration to develop proposals within the TANF reauthorization to help improve the interaction between welfare and housing systems.

36.3.3.6 **Workforce Investment Act.** Coordination between the TANF system and the workforce system continues to be a significant challenge in many states. Despite the enactment of the Workforce Investment Act in 1998, complex rules attached to various funding streams continue to make effective coordination between agencies unnecessarily difficult. Governors are committed to continuing to work toward better coordination and are interested in working with the federal government to explore ways to improve this relationship.

36.3.3.7 **Medicaid.** Governors recognize Medicaid as a key component of a family's transition from welfare to work. Without access to regular health care, health problems of a new worker or the worker's family members are likely to lead to greater absenteeism and possibly to job loss. Because access to health insurance is a crucial work support, Governors believe that Transitional Medicaid Assistance (TMA) should be continued. In addition, Governors acknowledge the importance of administrative funds for all health and human service programs, including Medicaid. While shared Medicaid administrative funds may have been incorporated into some states' TANF block grant base allocation, Governors believe that any reduction in the federal commitment to the administration of these programs will result in a loss of vital health and human service assistance to families in need.

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